

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Hans F. Larsen
Kim Walesh

**SUBJECT: PARKING AGREEMENT
CALIFORNIA NEWS PARTNERSHIP**

DATE: March 14, 2014

Approved



Date

3/14/14

SUPPLEMENTAL

REASON FOR SUPPLEMENTAL

The purpose of this memorandum is to provide the City Council with staff analysis of the Mayor's March 6, 2014 proposal to authorize the City Manager to negotiate and execute a parking agreement with the California News Partnership, conditioned on relocation of the San Jose Mercury News to Downtown, as referred by the Rules and Open Government Committee.

BACKGROUND

During the Great Recession of 2008, economic activity sharply contracted resulting in significant job losses and rising office vacancy rates. In Downtown San José, office vacancy rates rose to approximately 30% across all building types, with Class B and C buildings experiencing the highest vacancy rates, including some buildings exceeding 50%. The City's downtown parking system, which relies heavily on office leases as a key driver of parking occupancy, experienced vacancy rates greater than 50%.

In March 2010, in response to continued economic challenges, Mayor Reed and Councilmembers Liccardo, Herrera and Pyle recommended a series of incentives designed to spur economic activity in the City and downtown. On April 6, 2010, the City Council adopted a set of parking incentives aimed at attracting and retaining businesses downtown, thus reducing office and parking vacancy rates. The primary incentive offered has been a parking lease in a City facility that is free for the first half of a lease in commercial/office space (for up to two years), with the second half of the lease (for up to two additional years) at the City's regular parking rate (e.g. \$100 per month, per permit). Since 2010, the City entered into 159 parking leases connected to over 550,000 square feet of leased commercial space, and providing parking for over 1,340 employees.

ANALYSIS

The Mayor's proposal recommends that the City Manager be authorized to negotiate and execute a parking lease agreement in the 3rd Street Garage with the California News Partnership, conditioned on a long-term lease of downtown office space that provides for the relocation of the San Jose Mercury News to downtown, with certain modifications to the number of spaces, the rates, and length of the parking lease terms compared to the existing incentive program.

The table below compares the proposed terms of the California News Partnership lease, with the standard lease terms offered to all businesses meeting the eligibility requirements, and with the lease terms for the largest incentive offered to relocate a private business to downtown since the inception of the parking incentive program in 2010. The table includes information on the type of lease (e.g. new or renewal), the number of permits allocated, the length of the term, and the rate (e.g. amount of free parking, discounted parking, and regular rate parking). Finally, the information in the last row of the table outlines the amount of the incentive that the lessee could receive by foregoing payment of parking fees to the City, depending upon the number of permits used, the applicable rate, and the length of the lease. It also outlines the amount of parking fees the City could be paid over the life of the lease, dependent on the same factors. The percentages represent the relative amount of the incentive to the business versus the revenue to the City.

Standard Incentive		Incentive to Apigee Corp.		Incentive to CA News Part.	
<ul style="list-style-type: none"> • New/renewed office lease • 50 permits over 4 Yrs, potential for up to 100 permits over 5 Yrs • Free parking for ½ of term of lease and regular rate for remaining ½ of term 		<ul style="list-style-type: none"> • New office lease • 200 permits over 5.5 Yrs <ul style="list-style-type: none"> - 50 free Yrs 1-2.5 - 50 regular rate Yrs 2.5-5 - 50 at 50% rate Yrs 5-5.5 - 150 at 50% 5.5 yrs 		<ul style="list-style-type: none"> • New office lease • 200 permits over 7.5 Yrs <ul style="list-style-type: none"> - 160 free Yrs 1-4 - 160 at 50% rate Yr 5 - 160 regular rate Yrs 6-7.5 - 20 regular rate Yrs 1-4, w/option for Yrs 5-7.5 - 20 regular rate Yrs 1-7.5 	
<u>Incentive to Business</u>	<u>Revenue to City</u>	<u>Incentive to Business</u>	<u>Revenue to City</u>	<u>Incentive to Business</u>	<u>Revenue to City</u>
\$120,000 up to \$300,000	\$120,000 up to \$300,000	\$165,000 up to \$660,000	\$165,000 up to \$660,000	\$864,000	\$672,000 up to \$936,000
50%	50%	50%	50%	56% to 48%	48% to 56%

Status of Parking Incentive Program and Availability of Parking

As mentioned earlier in the report, the parking incentive program has generated significant commercial and parking activity in downtown San José. When the program began in 2010, all of the City's public parking garages had occupancy levels of 50% or less. With parking incentives,

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and aggressive leasing efforts by building owners, brokers, and City staff, the overall office vacancy rate has declined from about 30% to 17%. System wide parking occupancy has risen from below 50% to approximately 66%, with an individual parking facility rising above 80%. When the program was approved, it was contemplated that demand for parking would rise over time, and once the 80% occupancy threshold was surpassed, the availability of incentives would be evaluated, and based upon relevant considerations, would be modified or discontinued.

In the Market and San Pedro Square Garage, the average peak occupancy rate has risen to 85%. The garage is expected to completely fill in late 2015 when the Santa Clara County Superior Court opens its new Family Justice Center, which will result in an additional 225 permits being issued to court employees per the terms of their lease agreement with the City. Currently, the City is only offering month-to-month leasing in this garage, and is communicating to prospective customers that previous lease obligations may make it necessary to relocate their parking to another facility at some point in the future. In addition, City staff is focusing prospective customers inquiring about parking incentives to other parking facilities that have availability and remain active in the incentive program.

The 3rd Street Garage, the location that would park a relocated Mercury News, currently has a 56% average peak occupancy, and with previous lease commitments is expected to have increased occupancy to 86% if the Mercury News relocates. Given these projections, the 3rd Street Garage is being closely evaluated in terms of its ability to accommodate any additional incentive-based leases or parking relocations, which will be considered on a case-by-case basis. The 2nd and San Carlos Garage currently has a 57% average peak occupancy, with no outstanding future commitments. As a result, this garage has capacity for up to 200 additional permits available for allocation as part of the lease incentive program. The 4th and San Fernando Garage currently has a 50% average peak occupancy, but the private activity restrictions associated with the tax exempt financing used to build the facility limit the ability to provide traditional incentive parking programs at that garage. The garage does have significant availability for month-to-month parking.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office.

/s/
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Director of Transportation

/s/
KIM WALESH
Director of Economic Development
Chief Strategist

For questions please contact Laura Wells, Deputy Director of Transportation, at 408-975-3725 or Lee Wilcox, Downtown Manager, at 408-535-8172.